



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
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Insurance, Housing and Community Opportunity
On
HUD's Fiscal Year 2012 Rental Assistance Demonstration

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Good afternoon Chairman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee. I want to thank you for holding this hearing and giving me the opportunity to testify on the proposed Rental Assistance Demonstration, submitted as part of the Fiscal Year 2012 Budget Request.

This committee has played a key role in helping provide and maintain affordable, quality homes to some of this nation's most vulnerable populations, and I thank you for that leadership.

For the last few years, the Department, in collaboration with Congress and a wide range of stakeholders, has explored strategies both to preserve a number of the nation's core affordable rental housing programs—including public housing and the privately owned and managed assisted housing inventory—and to safeguard the significant taxpayer investment that has gone into this stock each year. And I appreciate this opportunity to discuss these strategies today and to comment on the recent action taken by appropriators.

Challenges Facing Public Housing Preservation

We meet at an important moment. Today the need for affordable housing is greater than ever. According to HUD's most recent Worst Case Housing Needs report, 7 million households pay more than half their income for housing, live in substandard housing or both. Essential to meeting the needs of these families is public and assisted housing – which provides 2.5 million quality, affordable homes in communities across the country, nearly 20% of which appear in rural and small towns. In all, 4.5 million households—a third of whom include an elderly or disabled family member—depend on help from the Federal government to pay the rent – whether in public housing or private subsidized housing.

The taxpayer has invested significantly over the last 75 years in the development and maintenance of these homes. Like all housing, this stock requires periodic recapitalization to maintain and modernize the buildings. Indeed, most forms of affordable housing can leverage funding from private investors and other non-government sources to make these repairs.

But public housing and properties funded through HUD's so-called “legacy programs” can't, Chairman Biggert. As a result, repairs to these homes tend to be put off longer, which makes the cost of maintaining them more expensive. Unfortunately, this leaves owners with deteriorating buildings, and little choice but to either demolish these homes or sell them.

To be sure, shortfalls in the Public Housing Capital and Operating Funds have contributed to but are not solely responsible for the problem.

Antiquated laws largely require the Federal government to be the sole investor in public housing. The U.S. Housing Act of 1937 prohibits public housing authorities (PHAs) from leveraging their assets in ways that nearly every other form of affordable housing can in order to adequately fund long-term operations and capital needs. Further, year-to-year budgetary fluctuations lead to less predictable funding streams that make it more difficult for PHAs to effectively plan for long-term needs.

As a result, Chairman Biggert, we lose these homes from our affordable housing stock permanently.

Already, we have lost over 150,000 publicly owned homes to demolition or disposition over the past 15 years – and continue to lose thousands more units every year as properties continue to deteriorate.

And given the Department's 2010 Capital Needs in the Public Housing Program study, we see no sign that this trend will change anytime soon. This Congressionally-funded study estimated that

the aggregate national capital backlog exceeds \$25.6 billion—or, \$23,365 per unit—in the public housing portfolio alone. We cannot come close to meeting this need through the annual appropriations process, particularly when we are in a period of tight fiscal constraints, and we are prohibited from leveraging the other forms of private and public investment.

Further, Public Housing is not the only inventory at risk. Equally critical are the parts of our privately owned and managed affordable housing stock that are facing the end of their contract terms, with either no option to renew, or, the inability to renew on terms needed to attract capital for reinvesting in their properties. The combined 48,800 units in our Rent Supplement, Rental Assistance Program, and Section 8 Moderate Rehabilitation programs are the most vulnerable among this category.

For the 23,800 Rent Supplement and Rental Assistance Payment inventories, HUD lacks the authority to renew Section 8 project-based rental assistance when they expire. Meanwhile the 25,000 units funded through contracts under the Moderate Rehabilitation program are limited to one year contacts that limit their ability to leverage capital.

Equally as important is our need to fundamentally improve the public housing system. Even if Congress were able to provide the \$26 billion the public housing inventory requires today, my decades of corporate and public sector experience managing housing tell me that we can build a better system that harnesses the resources and discipline of the private market without compromising the important mission of publicly supported housing. My experience also tells me that we can build a system that does not leave America's poorest families isolated – with too few choices and too little opportunity to take responsibility for their own futures. Nearly half -- 48% -- of families in public housing live in neighborhoods of concentrated poverty -- with failing schools and little opportunity or hope.

I believe we can do better – and I am confident this subcommittee would agree.

21st Century Preservation Tools

Collectively, these challenges require a commitment to preservation using proven tools that so many other forms of affordable housing have accessed over the last four decades. These tools will put our most vulnerable stock on a more solid foundation for the future and provide residents with access to more opportunity.

The Rental Assistance Demonstration that we have proposed as part of HUD's FY 2012 Budget request represents an important step in the right direction. We have worked hard and listened to you and many others in our formulation of this demonstration.

As this Subcommittee knows, last year we proposed an ambitious, multi-year effort called the Transforming Rental Assistance initiative, or, TRA to streamline HUD's affordable housing programs into one Section 8 program with a single stream of funding. This effort sparked an important conversation about increasing the ability of the public and private sectors to work together to invest in the success of these properties and the families who live in them.

Taking into account the concepts that emerged from that conversation, we designed a demonstration, focusing on the stocks with the greatest need, using tools with the broadest support, engaging stakeholders—from the public housing industry, to multifamily owners and managers, to residents—and sought input from Members and staff of this Subcommittee in particular. This process culminated in the Rental Assistance Demonstration we discuss today.

This Demonstration would be voluntary and would allow approximately 200,000 units of locally-managed public housing, and 8,000 units in the Rent Supplement, Rental Assistance Payment, and Section 8 Moderate Rehab programs to convert their federal funding source. PHAs and owners can choose to participate if they feel that the Demonstration would be the best option for preservation in their local communities, or they can choose to remain in their current program. At its core, the Demonstration is very much about giving PHAs, owners, and local residents the choice to determine the strategies that would best work for their home towns.

Our FY2012 Budget requested \$200 million for this Demonstration. These funds would support the incremental cost of converting these selected inventories, along with modest resources for tenant education and an evaluation.

The Department estimates that this \$200 million federal investment could unlock between \$6-and-\$7 billion in private investment to repair and rehabilitate participating developments, which would go a long way toward meeting the estimated \$26 billion capital need in public housing. We also estimate that it would create 115,000 jobs in the communities that need them most.¹

Key Goals of the Rental Assistance Demonstration

The Demonstration differs from our TRA proposal in important ways including strengthening public control and foreclosure protections, while at the same time eliminating proposals that would have regionalized public housing administration. It builds on the basics of what we know already works to preserve affordable housing and has five key goals:

Long Term Stability. The Demonstration puts public housing on a stable funding platform that will allow owners to plan for the future and maintain their properties. Specifically, it would

¹ The case studies in the Addendum illustrate the leveraging potential of converting public housing to project-based Section 8 contracts under two scenarios: a traditional debt model, and a combined debt and equity financing model.

allow PHAs and owners of Moderate Rehabilitation, Rent Supplement, and Rental Assistance Payment properties the option to convert their current or expiring form of rental assistance to either a Section 8 Project Based Voucher (PBV) contract or a Section 8 Project Based Rental Assistance (PBRA) contract.

PBVs and PBRA have proven to be effective tools for preservation and affordability. Further, there is widespread acceptance and familiarity within the lending community around Section 8, and HUD already has the internal infrastructure to manage Section 8 contracts.

- For PHAs, this essentially means trading operating and capital subsidies under the Public Housing program for long-term project-based Section 8 rental assistance contracts.
- For the Rent Supplement and Rental Assistance Payment programs, HUD would convert contracts to Section 8 PBRA contracts with 20-year terms.
- For Moderate Rehabilitation properties, the Demonstration would provide a real opportunity to put them on sound financial footing and to make needed repairs by also converting to long-term, 20-year Section 8 PBRA or PBV contracts.

Safe, Proven Tools to Leverage Private Capital. The Demonstration will allow the public housing, Rent Sup, RAP and Mod Rehab programs to use the same tools to access private debt and equity that all other affordable housing programs use.

Mixed-finance affordable housing development has proven to be extraordinary successful at leveraging private capital. Currently, the long-term project-based Section 8 system successfully supports 1.4 million units of multifamily assisted housing. Overall, this inventory has generated tens of billions of dollars in debt and equity investments over the past 30 years, while the foreclosure rate in the inventory has been limited to a historical average of less than half of one percent. Conversion to this Section 8 platform will also give this housing better access to the largest source of equity for affordable housing over the last decades – the Low Income Housing Tax Credit program (LIHTC).

Over the past 25 years, the LIHTC has helped finance the construction and preservation of more than 1.8 million affordable rental homes, created more than 3.6 million jobs (most of which are in the small business sector), and has leveraged more than \$75 billion in private capital.

LIHTCs support roughly 180,000 jobs annually. With approximately 90% of all affordable rental housing created or preserved each year receiving equity through the LIHTC program, these tools have helped bring not only new capital to affordable housing but also a new sense of discipline that extends from the way that properties are financed to how they are managed.

Long-Term Affordability. Perhaps the most important goal of affordable housing preservation efforts such as this Demonstration is saving properties for generations to come by better managing the investment the public has already made. Toward that end, participating properties will feature long-term assistance contracts and use agreements, which will outlast any disposition of the property, including in the event of foreclosure or bankruptcy.

More Resident Choice and Real Resident Rights. Families should be able to choose where they live and be able to take responsibility for their futures – while also being protected from eviction, rental assistance termination or re-screening as a result of conversion. Accordingly, we expect that at least 90 percent of the Public Housing and Mod Rehab units converted under the Demonstration will provide residents with an option to move with voucher assistance after a reasonable tenure. Residents will also have an opportunity to comment on any conversion action, not be subject to re-screening, and have strong procedural and organizing rights.

Effective Public Ownership. Preserving public housing for the next generation is not about changing who owns public housing – but rather, how it is funded and the tools it can access. In the Demonstration, public housing properties will remain under the ownership or control of a public housing authority, other capable public or nonprofit entity identified by the PHA, or a limited partnership formed for purposes of accessing Low-Income Housing Tax Credits. In the unlikely event of foreclosure, bankruptcy, or enforcement action – indeed even in this economy, local Multifamily owners have defaulted on their loans less than one-tenth of 1 percent of the time -- the Secretary may transfer the contract and use agreement to a capable public or nonprofit entity. Only when neither of these options is viable may the Secretary seek to the help of a for profit entity in preserving the property. If this were to occur, it is important to note that the owner would still be required to manage the property, guarantee its affordability and maintain tenant rights in accordance with the Use Agreement.

Implementing the Demonstration

The Demonstration relies on existing tools that have proven effective at preserving affordable housing over the last 20 years or more. And while public housing and the “legacy programs” have had limited access to these tools, other programs within HUD have been using them for the past two decades – giving HUD the experience with private sector developers, investors, and lenders that is so critical to making this demonstration a success. From our work with the private sector on HOPE VI and now Choice Neighborhoods to our management of over 1.4 million units of multifamily housing with Section 8 contracts we have the infrastructure in place to both manage the conversions of traditional public housing properties to operate under Section 8 contracts and to monitor these assets over time.

And with their decades of experience in financing and developing a range of affordable housing programs, we anticipate that private sector partners will continue to play a key role in this demonstration. As we have seen in HOPE VI, many PHAs have already collaborated with the private sector in a variety of ways – from securing FHA insurance, tax-exempt bond financing, private loans and/or tax credit investments to assistance with legal, accounting and investor reporting responsibilities.

With this demonstration, PHAs will continue to sponsor, develop, own and manage forms of needed housing that the private market on its own cannot be expected to profitably produce and manage. But at the same time the private sector will be able to add capacity and expertise in the field of real estate finance and development that we believe is critical to the success of these properties and this demonstration.

Appropriations Request

The Senate Transportation, Housing and Urban Development, and Related Agencies Appropriations Subcommittee recently decided to include language in its Fiscal Year 2012 legislation that authorizes the Demonstration in the form of a limited, cost-neutral demonstration targeted at the public housing portfolio (it does not include conversion authorization for units in our Rent Supplement, Rental Assistance Payment, and Moderate Rehabilitation inventories). We appreciate the Subcommittee's action, and we believe it would give us the authority we need to take an important first step towards preserving public housing, utilizing the Demonstration model.

While we believe it makes sense to move toward a comprehensive authorization of Demonstration – and we are thus appreciative of the opportunity afforded by today's hearing to give the Demonstration concept a valuable public airing – we also believe it is reasonable, as an initial test of the proposal, to proceed for now with the option that has been included in the Senate appropriations bill. We are hopeful that the members of this subcommittee will join with us in supporting this strategy, while continuing to explore the broader authorization process through this committee.

Further, we are aware that Senate authorizers are pursuing amendments to allow for Tenant Protection Vouchers to be project based as a no-cost strategy for preserving these properties through the use of Project-Based Vouchers. While we support this approach and have found it to be very helpful, we continue to believe that these expiring projects, with 25,000 units available to low-income residents, need a long-term fix.

Conclusion

And so, Chairman Biggert, we believe the time has come to allow America's public housing system to take advantage of 30 years of innovations in affordable housing finance – to connect millions of families to opportunity, to turn homes too often seen as a “neighborhood problem” into community assets, and to allow owners of public and assisted housing to access the proven preservation tools available to all other affordable housing programs.

This Demonstration represents an important step toward preserving these homes for the future – and I want to thank you again for this opportunity to testify today. I would be glad to answer any questions.

Addendum: Preserving Public Housing through Conversion to Long-Term Section 8 Rental Assistance Contracts: Two Recapitalization Examples Under HUD's 2012 Rental Assistance Demonstration